FINANCIAL CONSTRAINTS, FIRMS' SUPPLY CHAINS AND INTERNATIONALIZATION

Raoul Minetti
Michigan State University

Pierluigi Murro
Lumsa University

Zeno Rotondi
UniCredit

Susan Chun Zhu
Michigan State University

Abstract

Using a unique sample of small and medium-sized Italian firms, we investigate the effect of financial constraints on firms' participation in domestic and international supply chains. We find that firms more exposed to bank credit rationing and with weaker relationships with banks are more likely to participate in supply chains to overcome liquidity shortages. This benefit of supply chains is especially strong when firms establish long-term trading relationships and when they forge ties with large and international trading partners. To control for possible endogeneity of firms' access to credit, we construct instruments capturing exogenous shocks to the structure of the Italian local banking markets. (JEL: F10, G20, L23)

The editor in charge of this paper was Claudio Michelacci.

Acknowledgments: We wish to thank the editor, four anonymous referees, Stephen Brown, Paolo Giordani, Andrea Presbitero, Michele Ruta, Jeff Wooldridge, and seminar and conference participants at Birmingham Business School (Second Global Value Chains Workshop), Brunel University, Deakin University, Economic and Social Research Institute (Dublin), IMF (Washington, D.C.), Italian Ministry of Economic Development (Research Unit, Rome), Michigan State University, Midwest Trade Meetings, Oakland University, Monash University (Melbourne), Rieti-MoFiR-Hitotsubashi-JFC International Workshop on Banking and Financial Research (Tokyo), Siepi workshop (Palermo), University of Bologna, University of Rome (Lumsa), for helpful comments and conversations. All remaining errors are ours.

E-mail: minetti@msu.edu (Minetti); p.murro@lumsa.it (Murro); Zeno.Rotondi@unicredit.eu (Rotondi); zhuc@msu.edu (Chun Zhu)

Journal of the European Economic Association
Preprint prepared on 30 November 2017 using jeea.cls *v1.0.*